



North East Combined Authority, Governance Committee

Tuesday 13th September, 2016 at 2.00 pm

Meeting to be held: Newcastle City Council, Civic Centre, Barras Bridge, Newcastle upon Tyne
NE1 8QH

www.northeastca.gov.uk

AGENDA

Page No

1. **Apologies for absence**

2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer).

Please also remember to leave the meeting where any personal interest requires this.

3. **Minutes of Previous Meeting held on 5 July 2016**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

4. **Bus Services Bill**

1 - 12

5. **Draft Budget 2017/18 - Process and Timetable and Treasury Management Mid-Year Update**

13 - 22

6. Annual Report and Accounts

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

7. External Auditor's Report

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

8. Annual Governance Statement 23 - 34

9. Anti-Fraud and Corruption Policy 35 - 50

10. Strategic Risks and Opportunities Register 51 - 62

11. Internal Audit Progress Report 63 - 70

12. Date and Time of Next Meeting

Tuesday 6 December 2016 at 2.00pm at South Tyneside Council, Jarrow Town Hall

Contact Officer: Christine Patterson Tel: 0191 211 6156 E-mail: christine.patterson@newcastle.gov.uk

To: All Members

North East Combined Authority

Transport North East Committee

Date: 13 September 2016
Subject: Bus Services Bill
Report of: Managing Director, Transport Operations

Executive Summary

The purpose of this report is to update the Committee on a presentation recently delivered to the Transport North East Committee in relation to the Bus Services Bill, which included an assessment of opportunities and risks that the Bill presents to the NECA area.

Recommendations

It is recommended that the Committee agrees to note this report.

North East Combined Authority

Transport North East Committee

1 Background Information

- 1.1 The Transport North East Committee (TNEC) considered a report on the 15 July 2016 in relation to the Bus Services Bill, which the Department for Transport (DfT) is currently progressing through Parliament. The report presented to TNEC is provided at **Appendix 1**.
- 1.2 The report sets out the opportunities that the Bill presents that could assist in allowing the NECA to deliver its bus strategies. The report also highlights important risks associated with the Bill in relation to:
- The availability of automatic powers to implement a bus franchising scheme, should a business case exist, for areas that are partially or entirely not covered by a Mayoral Combined Authority;
 - Amendments to the Bill as it progresses through Parliament that could render some options unworkable; and
 - The willingness of bus operators in the North East to work with the NECA to develop effective partnership options in line with the provisions made available by the Bill.
- 1.3 In addition, the TNEC highlighted two further concerns:
- Clause 21 of the Bill would prevent a new municipally-owned bus company from being formed to operate bus services in its area. The TNEC wishes to see this Clause removed from the Bill; and
 - Without a scheme to deliver the NECA's Bus Strategies (be it a bus franchising scheme or a partnership scheme), commercial and secured bus services would be at risk of reducing further in the future.

2 Next Steps

- 2.1 Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

3 Potential Impact on Objectives

- 3.1 Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

4 Finance and Other Resources

- 4.1 Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

North East Combined Authority

Transport North East Committee

5 Legal

5.1 Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

6 Other Considerations

6.1 Consultation/Community Engagement

Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

6.2 Human Rights

Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

6.3 Equalities and Diversity

Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

6.4 Risk Management

Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

6.5 Crime and Disorder

Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

6.6 Environment and Sustainability

Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

7 Background Documents

7.1 Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

8 Links to the Local Transport Plans

8.1 Please refer to the report presented to TNEC on 15 July 2016, at Appendix 1.

9 Appendices

9.1 Appendix 1 – report presented to TNEC on 15 July 2016.

10 Contact Officers

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North East Combined Authority

Transport North East Committee

11 Sign off

- Head of Paid Service
- Monitoring Officer
- Chief Finance Officer

Please use ✓

12 Glossary

DfT – Department for Transport
UTG – Urban Transport Group

Date: 15 July 2016

Subject: Bus Services Bill

Report of: Managing Director, Transport Operations

Executive Summary

The purpose of this report is to update the Committee on the Bus Services Bill, which has now been introduced to Parliament, and its implications for the NECA area.

Recommendations

It is recommended that the Committee agrees to note this report.

1 Background Information

- 1.1 The Bus Services Bill is intended to provide local transport authorities and bus operators with new and improved tools to deliver their bus strategies.
- 1.2 The Bill was introduced to the House of Lords by the Department for Transport on 19 May 2016. It had two House of Lords readings on the 19th May 2016 and the 8th June 2016 and was considered by a House of Lords Committee on 29th June 2016 and 30th June 2016.
- 1.2 A briefing note prepared by the Urban Transport Group (UTG, formerly pteg) in relation to the Bus Services Bill can be found at **Appendix 1**.

2 Next Steps

- 2.1 The next stage of the Bill's progress through Parliament is a House of Lords report stage and a third reading. The Bill will then be passed to the House of Commons for a similar process of readings and consideration by a committee. The DfT advise that the House of Commons process will be completed in early 2017 so that the Bill can receive Royal Assent in early 2017 and become the Bus Services Act by March 2017.
- 2.2 The Bill requires that a number of regulations are dealt with through secondary legislation and come into force through Statutory Instruments. The regulations contained with the Statutory Instruments are due to come into force by April 2017.
- 2.3 The Bus Services Act has the potential to offer the NECA new options to deliver its bus strategies. These options are:
 - A Bus Franchising Scheme, where the Elected Mayor of a Combined Authority can decide to take control of bus networks and fares, as long as a business case exists to do so. Bus operators will compete for contracts to operate services specified by the Combined Authority;
 - An Enhanced Partnership Scheme, where a local transport authority and the majority of (but not all) commercial bus operators agree a Bus Plan and the operation of services is then restricted to those operators that deliver the requirements of the Plan, such as minimum vehicle quality standards or compliance with a joint ticketing scheme; and
 - An Advanced Quality Partnership, where the local transport authority implements measures (a bus priority scheme or a new interchange, for instance) and use of those measures is restricted to bus operators that meet agreed quality standards (typically minimum vehicle and driver standards).

Further details of the options can be found in Appendix 1.

3 Potential Impact on Objectives

- 3.1 The Bus Services Bill potentially offers new options to achieve the NECA's bus strategies and wider transport objectives. These are being examined through a scoping study, established at the request of the Leadership Board on 24th March 2016.

4 Finance and Other Resources

- 4.1 The options made possible by the Bus Services Bill will have financial implications, should they be implemented by the NECA. The scale of these costs is currently being assessed.

5 Legal

- 5.1 The Bus Services Bill is the legal basis for options that might be considered for implementation in the NECA area. It will be important that changes to the Bill's detailed provisions are identified as it completes its passage through Parliament and incorporated into any work undertaken by the NECA. Nexus is working closely with DfT and UTG to assist the development of detailed aspects of the Bill, including secondary legislation and statutory guidance.

6 Other Considerations

6.1 Consultation/Community Engagement

Should the Elected Mayor of a Combined Authority decide to proceed with a Bus Franchising Scheme, an Advanced Quality Partnership or an Enhanced Partnership Scheme, appropriate consultation would need to be conducted.

6.2 Human Rights

The Government has stated that the Bus Services Bill is compatible with European Convention on Human Rights.

6.3 Equalities and Diversity

Should an option made available in the Bus Services Bill be adopted to deliver bus strategies in the NECA area, an objective of those strategies is to broaden transport choices for people living and working in the NECA area.

6.4 Risk Management

As a preferred option for delivering the NECA's bus strategies emerges, detailed work will be undertaken to identify, understand and evaluate delivery risks. The Bus Services Bill requires that any analysis of a bus franchising scheme must be independently audited by a qualified auditor.

6.5 **Crime and Disorder**

There are no crime and disorder implications in this report.

6.6 **Environment and Sustainability**

Should an option made available in the Bus Services Bill be adopted to deliver bus strategies in the NECA area, an objective of those strategies is to improve the environment and encourage sustainable transport choices in the NECA area.

7 **Background Documents**

7.1 Leadership Board supplemental agenda pack for 24 March 2016 meeting.

8 **Links to the Local Transport Plans**

8.1 The Bus Services Bill has the potential to provide an important new method to deliver key aspects of the NECA's Local Transport Plans.

9 **Appendices**

9.1 Appendix 1 – UTG Bus Services Bill briefing note.

10 **Contact Officers**

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11 **Sign off**

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

12 **Glossary**

QCS – Quality Contracts Scheme

DfT – Department for Transport

UTG – Urban Transport Group

Briefing for Lords Second Reading debate on the Bus Services Bill

The Bus Services Bill

The Bus Services Bill will do three things:

- Introduce a simpler route to the franchising of bus networks for Mayoral Combined Authorities (and to other places at the discretion of the SoS). This will allow bus services in those areas to be provided in the same way that buses are provided in London with the public sector specifying services and the private sector competing for the contracts to provide those services;
- Improve the arrangements in those areas which remain deregulated through providing for more comprehensive partnership agreements between local transport authorities and bus operators;
- Provide for more and better ‘open data’ in the bus sector.

The Government’s web hub for the Bill can be found here:

<https://www.gov.uk/government/publications/bus-services-bill-overview>

Why is new bus legislation needed?

Bus services outside London were deregulated in 1986. Since then, there have been two systems of bus provision – one for London and one for the rest of Britain.

In London, Transport for London (TfL, which is accountable to the Mayor) specifies in detail what bus services are to be provided. TfL decides the routes, timetables and fares. The services themselves are operated by private companies through a competitive tendering process.

In the rest of the country, it’s a free market meaning that anyone (subject to minimum safety and operating standards) can start up a bus service. In this environment, bus operators are free to run whatever services they like as well as decide the fares they will charge and the vehicles they will use. Although in theory, it is a competitive market, in reality, most bus services are provided by five large companies who rarely compete against each other (Arriva, First, Go-Ahead, National Express and Stagecoach).

Under this two-tier system, buses in London have thrived. Since 1986/87, patronage in London has doubled, mileage has increased by 74% and fare increases have been lower than in the city regions. Meanwhile since 2004/5 alone patronage in the metropolitan areas has fallen by 7% whilst patronage in London has increased by 31%.

New legislation is needed to give local transport authorities outside London a more effective set of powers to tackle decline and improve services for passengers.

Does the Urban Transport Group support the legislation?

We strongly support the overall aims of the legislation. The bus is the main form of public transport and has enormous potential to play a greater role. Buses reduce congestion for all road users by taking car traffic off the road and by making the most efficient use of road space; give the jobless access to jobs; provide young people with access to education and opportunity; give access to healthcare and contribute to improved public health; and are the fastest way of providing additional public transport capacity to new developments.

If our city regions are to achieve wider economic, social and environmental goals, whilst making the best use of limited public funding, then they need to have more effective tools with which to improve bus services as part of wider planned and integrated transport networks.

However, as with all legislation 'the devil will be in the detail' and the final wording of the primary and secondary legislation (and guidance) needs to be in line with the intent of the draft Bill. Previous reforming legislation on buses (the 2000 Transport Act and 2008 Local Transport Act) has proved to be too cumbersome, cautious and convoluted. For example no area has been able to introduce the franchising of bus networks using the complex provisions in those Acts. This will be the third attempt since 2000 to introduce legislation on buses that is fit for purpose and it's vitally important that the detail is got right this time.

We also believe that it is for each local transport authority to determine which of the tools in the legislation is most appropriate for them. However, it is equally important that all the tools are usable as without a workable route to franchising the leverage for all transport authorities is reduced, including for those who want to pursue the partnership route.

What are the key issues on the provisions in the Bill on franchising?

There are some issues of detail that we are currently assessing and will wish to take up at the Committee stage however in principle the process in the Bill looks to be proportionate and workable. It should be noted that there are criteria which the transport authority must assess and consider but the process involves no second guessing or judgement of an authority's franchising proposal by a third party, or by the Government. The exception being an audit of the quality of the data, and the analysis of that data, by an auditor appointed by the authority. There is also a requirement for wider consultation. We think that in principle the process, as set out, is fair, proportionate and appropriate. We would not support anything which made this process more complex or cumbersome as, a) a democratically accountable local authority body is best placed to judge how bus services should be provided (subject to a reasonable and proportionate process) not national government or a quango and, b) experience of previous legislation shows that incumbent monopoly operators will use their considerable financial and legal muscle to render complex processes too difficult and expensive to utilise in practice.

Peers may wish to probe on the criteria on which those areas that do not automatically get access to the franchising process (i.e. those areas that are not Mayoral Combined Authorities) are to be assessed.

There is more on the case for franchising (including a 'myths and facts' briefing) on our Bus Services Bill web hub which can be found here: <http://www.urbantransportgroup.org/resources/bus/bus-services-bill>

What are the key issues on the provisions on areas that remain deregulated (partnerships)?

The provisions in this area are complicated and less fully worked through in the primary legislation than are the provisions for franchising.

There are two forms of partnership set out in the Bill: Advanced Quality Partnerships (AQPs) and Enhanced Partnerships (EPs).

There are also improvements to the provisions on ticketing schemes which can be used by local transport authorities either in tandem with an Advanced Quality Partnership or an Enhanced Partnership, or independently of either.

Advanced Quality Partnerships (AQPs)

These take the existing Quality Partnership Schemes (QPS) from the 2008 Act and expand their scope and change their name. The name change is because QPS provisions are still in place in Welsh and Scottish buses legislation and the Bus Services Bill covers England only.

Under an AQP a Local Transport Authority commits to taking measures that will benefit bus services (such as traffic management and parking policies or bus priority) for a route or routes. In order to use these facilities bus operators must meet set standards for the services that benefit from these facilities. This could include vehicle standards, frequency and timings, maximum fares and information provision. Note that a Local Transport Authority cannot compel an operator to use the facilities it provides and therefore operators voluntarily enter into an AQP and as such is in a position to negotiate on terms.

The predecessors to AQPs (the QPS) were a feature of the 2008 Act that was taken up by a wide range of transport authorities and has proved useful. The widening of the scope of AQPs is welcome in principle (for example the removal of the requirement that the threshold for local authorities for such schemes is limited to the provision of physical infrastructure for buses). However, we are reviewing the detail and there may be issues that would benefit from being explored at Committee stage.

Enhanced Partnerships (EPs)

Enhanced Partnerships attempt to build on the more far reaching partnerships already being pursued by some Local Transport Authorities and would allow the Local Transport Authority and the incumbent operators to manage the local bus market with the intention of achieving better overall outcomes for passengers.

It would do this through an authority producing an Enhanced Partnership Plan and Scheme for how bus services would be provided in future. This could at its maximum extent include such requirements as vehicle specifications and branding, ticketing structure and timetables. It could not however (for competition law reasons) include the price of operator single tickets (so it would fall

short of complete ticketing integration that franchising can deliver whilst still being a considerable improvement on the status quo).

However, there would be some kind of qualified voting system which would ensure that such a scheme could not be imposed on operators against their will (how this would be done in practice is still to be defined). In other words an EP is still a largely voluntarily arrangement, the detail of which incumbent bus operators have a defacto veto, but once agreed upon it takes statutory form.

The EP proposals are ambitious and complex and at present there is not enough detail to fully understand how they might work in practice but in principle they could be a useful option for local transport authorities. Peers may wish to press for more detail in time for the committee stage so that this option can be subject to informed scrutiny.

Advanced ticketing schemes

Advanced ticketing schemes build on the existing provisions for statutory ticketing schemes. Advanced Ticketing Schemes broaden the scope of existing legislative provision for multi-operator ticketing schemes within the deregulated environment (i.e. tickets which can be used on all operators' buses across a specified area) and as such are welcome. However it should be noted that although the scope is extended to take into account smart ticketing, and also the promotion and availability of such tickets, it does not prevent operators from under-cutting multi-operator tickets with their own single-operator tickets. Franchising remains the only certain way of achieving such an outcome.

What are the key issues on the open data provisions?

Consumer rights in relation to bus services are extremely limited at present. For example there is no right of access to fares information (other than when boarding a bus) and available data on how bus routes are performing is often subject to secrecy clauses imposed by operators. Even the Traffic Commissioners, who have the statutory role on enforcement on poor performance, have no right of access to the performance data which is derived from the increasingly common real time information systems (systems which have often been subsidised or grant funded by national or local government).

The intent of the legislation to open up data on bus services is therefore both long overdue and welcome. However, much of the detail of how the open data provisions will work in practice is yet to be worked through. It will be important to ensure that the data is in a form which is usable both for transport planning and for passenger information for example.

Peers may also wish to probe who will have access to this data and for what purpose (including passengers, local transport authorities, traffic commissioners and the statutory passenger watchdog – Transport Focus).

North East Combined Authority

Governance Committee

Date: 13 September 2016

Subject: Draft Budget 2017/18 Process and Timetable and Treasury Management Mid-Year Update

Report Of: Chief Finance Officer

Executive Summary

The purpose of this report is to set out the process and timetable for the preparation, consultation and approval of the 2017/18 budget and indicative medium term financial strategy, including consultation with Governance Committee.

The North East Combined Authority is required by law to set its Transport Levies for 2017/18 by 15 February 2017, and has previously agreed its overall budget in January, in order to enable constituent authorities to take the levies and other contributions to the Authority into account in setting their own budgets for 2017/18.

The report also contains a mid-year update on Treasury Management activity for the Authority.

Recommendations

The Committee is recommended to receive the report for information.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The Transport Levying Bodies (Amendment) Regulations 2015 require the Authority to set its Transport Levies for 2017/18 by 15 February 2017. NECA's practice is to set the levies in January to ensure that this statutory deadline is met, but also to give constituent authorities information about the transport levies as early as possible to enable them to reflect the amounts in their budgets.
- 1.2 In addition to the Transport Levies, the budget will set out any contributions from constituent authorities to meeting the non-transport costs of the Authority for agreement.
- 1.3 In line with the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice, the Authority is required to approve a treasury management strategy (including a range of prudential indicators) before the start of each financial year and to monitor / report performance against these prudential indicators during the year, (with a mid year review) and following the year end.

2 NECA Budget Process and Timetable

2.1 2017/18 Budget and Three Year Medium Term Financial Strategy

- 2.1.1 The Combined Authority is required to set a Budget and Transport Levies in its area for 2017/18 before 15 February 2017. It is currently planned that the NECA Leadership Board will agree these at its meeting on 17 January 2017.
- 2.1.2 To achieve this, Transport levies must be considered by the Tyne and Wear Transport Sub-Committee and in Durham and Northumberland by mid-December 2016.
- 2.1.3 In regard to the Tyne and Wear transport levy, the Leadership Board will recall that it agreed a reduction in this particular levy in the current year of £2.080m. Of this, £2.000m related to the grant paid to Nexus and as a consequence, approval was given to the Nexus budget being balanced by use of reserves, pending the delivery of further savings in future years. To facilitate this, Nexus has recently undertaken the first phase of a public consultation exercise, seeking users' views about the services it provides, the outcome of which was reported to the Tyne and Wear Transport Sub-Committee on 15 September 2016. The need for expenditure reductions within the Nexus budget next year will therefore be heavily influenced by the level of the Tyne and Wear transport levy in 2017/18 and this will need to be

North East Combined Authority

Governance Committee

reflected in the initial budget report in October/November (refer to Section 4, Next Steps).

- 2.1.4 While the statutory requirement is for the budget and levies for 2017/18 to be set, it is good practice to set a budget within the context of a Medium Term Financial Strategy covering a three to five year period. This will be particularly important in connection with the Capital Programme, when the outcome of the Local Growth Fund Round 3 bid has been announced.

2.2 Long Term Investment Programme

- 2.2.1 A substantial and growing element of NECA's budget is capital investment, both in terms of Highways and Transport Infrastructure and investment in Economic Development and Business Support initiatives.
- 2.2.2 Infrastructure projects by their nature have a longer term planning and delivery profile and a longer term Investment Strategy and Plan is important. It is therefore proposed to establish an outline five to fifteen year investment plan as part of the Devolution proposals. This would contain more detail about approved schemes and funding in the early years of the programme (years one to five). It could also set out indicative and aspirational investment proposals for future periods (ten to fifteen years). This would help identify levels of funding that would need to be sought and secured, identifying opportunities and timetables for bids for funding and identify the need for investment in project design and development and any prioritisation processes needed for the use of local funding.

2.3 Budget Timetable

- 2.3.1 An indicative timetable has been prepared (see Appendix 1) to enable the budget and levy decisions to be taken on 17 January 2017, and to meet the need for consultation over the 2017/18 budget proposals as set out in NECA's constitution.
- 2.3.2 The timetable will be challenging, and requires an outline budget for 2017/18 to be agreed on 15 November for consultation, meaning discussion of substantive policy, strategy and financial considerations in September and October.
- 2.3.3 The outline budget proposals should highlight the overall level of the capital and revenue budgets for 2017/18, and any significant service impacts upon which consultation would be required. It should set out the level of reserves considered prudent for NECA and an assessment of the opportunities and risks facing the authority. More detail can be agreed in early December to be added to the budget report for 17 January.

North East Combined Authority

Governance Committee

3 Risk and Reserves

- 3.1 The budget proposals need to include an assessment of the level of financial risk facing the NECA budget. Risks to the budget are currently considered to be generally relatively low in respect of Transport as, under the Levy rules, the in-year Transport cost risks are taken by Durham and Northumberland Councils, and by Nexus for Tyne and Wear.
- 3.2 Risks from the pension fund are minimal as NECA has repaid most of its historic pension deficit. The position will become clearer over the next few months following the triennial revaluation, which will set contributions for the next three years.
- 3.3 Risks associated with Treasury Management loans and investments will be covered in a separate statement as part of the budget process.
- 3.4 Risks relating to NELEP funds will be managed within the NELEP, including access to funds where the use is determined by the NELEP board.
- 3.5 While NECA has substantial total reserves, these are virtually all earmarked for specific purposes, particularly capital investment, the North East Smart Ticketing Initiative and the Tyne Tunnels. The NECA corporate reserves is very low. The adequacy of this reserve will be reviewed and updated. It is likely to be drawn upon to fund costs in 2016/17 and will need to be replenished to a level which is considered prudent.

4 Treasury Management Mid-Year Update

Borrowings

- 4.1 External interest rates payable in the first six months of the 2015/16 financial year were at the level assumed in the treasury management strategy. All borrowing currently relates to Tyne and Wear, and the costs of this borrowing are charged to the Tyne and Wear transport levy; the Tyne Tunnels budget and the Nexus budget as appropriate
- 4.2 No new loans have been taken out during the year to date. The following table shows the movement between opening and closing level of external loans during the first six months of the year and known repayments to the year end.

Table 1: External Loans

Figures in £m	Actual £m	Authorised £m
Level of external loans as at 1 April 2016	170.000	240.000
New loans taken out in first six months of year	-	-

North East Combined Authority

Governance Committee

Loans repaid in first six months of year	(1.333)	-
Level of external loans as at 30 September 2016	168.667	240.000
Estimated further net decrease in external loans	(0.333)	-
Estimated level of external loans as at 31 March 2017	168.333	240.000

- 4.3 As can be seen from the above table, the overall level of borrowing has decreased to just over £168m in the first six months of the year. This is due to regular repayments on Equal Instalment of Principal (EIP) loans. This level of borrowing is well under the authorised limit for the year, as the Authority has used internal funds in place of external borrowing to part fund its capital financing requirement. The authorised limit has been retained at a consistent level despite repayment of external borrowing, to allow the flexibility to undertake external borrowing if required later in the year.
- 4.4 The Authority strives to minimise the interest rate risk it faces and maintain stability by seeking to maintain an appropriate debt maturity profile (i.e. the profile of when external loans need to be repaid), which is shown in Table 2 below.

Table 2: External Debt Maturity Profile

Loans repayable:	01/04/2016 (actual) £m	30/09/2016 (actual) £m	31/03/2017 (estimate) £m
In less than one year	1.667	0.333	0.667
Between one and two years	0.667	0.667	1.333
Between two and five years	2.000	2.000	2.000
Between five and ten years	3.333	3.333	2.333
In more than ten years	162.333	162.333	162.000
Total	170.000	168.667	168.333

- 4.5 As can be seen from the above table, the profile is weighted heavily towards long-term borrowing. This is because most of the borrowing relates to the New Tyne Crossing Project, where long-term borrowing was preferable to provide certainty of payments to enable accurate financial modelling over the period of the operating concession. As short-term loans have matured, they have not been replaced.
- 4.6 The current average rate of external interest payable (i.e. 4.28%) is in line with the assumptions made when the 2016/17 budget was set and total external interest charges to the year-end will be within budget.

Investments

- 4.7 At 1st April the Authority had £51m invested in short term deposits and £38m investments placed on behalf of Nexus.

North East Combined Authority

Governance Committee

- 4.8 Due to the receipt of £79m Local Growth Deal funding in April 2016, the Authority has had a higher level of short term cash balances during 2016/17 than in previous years and the level of external investments has therefore increased. This requires additional flexibility and options to manage investments. Based on the current level of planned capital expenditure and use of revenue balances in 2016/17 and the expected profile of payments which is expected to be weighted towards the year end, the level of external investments is expected to be around £20m by the end of the financial year.
- 4.9 The current weighted average rate of external interest receivable is around 0.6%. Investments of cash balances will be extended to periods of up to 12 months in order to secure an increased average rate of return, with increased interest income used to help fund the costs of the Authority.
- 4.10 The primary objective of the Authority's investment strategy is to ensure the security of the funds invested, and to achieve a reasonable rate of return commensurate with the level of security required. No changes are currently proposed to the investment criteria agreed by the Leadership Board in April 2016, which are set out in the following table.

Table 3: Investment criteria

Type of institution	Financial Limit	Time Limit
UK central government (Debt Management Office)	Unlimited	Unlimited
UK banks with AAA, AA+, AA, AA-, A+, A credit ratings	£15m each	1 year unsecured 2 years secured
UK banks with A- credit ratings	£10m each	6 months unsecured 1 year secured
UK Local authorities	£10m each	3 years
UK building societies whose lowest published long-term credit rating is BB and societies without credit ratings with assets greater than £250m	£5m each	6 months unsecured 1 year secured
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	£5m each	1 year
Local Authority controlled companies in the NECA area	£30m each	20 years

North East Combined Authority

Governance Committee

4.11 Treasury Management Activity in 2017/18

A detailed Treasury Management and Investment Strategy will be presented to the Leadership Board in January 2017 for approval along with the budget. Any significant proposals for change will be included with budget proposals presented to Governance Committee for consultation at its December meeting.

5 Next Steps

5.1 During August and early September the budget process is being discussed with Economic Development Officer Group, the Directors of Finance Group, the Transport Officers Group and individual Treasurers. Senior officers have been encouraged to have discussions within each authority as part of their budget process.

5.2 Key meetings in September with Chief Executives and Leaders will need to identify the key issues and reach agreement on matters that need to be reflected in the initial budget report in October/November.

5.3 Budget proposals will be presented to Governance Committee at its meeting in December as part of the consultation process, and the results of consultation will be reported to the Leadership Board.

6 Potential Impact on Objectives

6.1 The budget and Medium Term Financial Strategy will be prepared to reflect the objectives of the Authority including the delivery of the Strategic Economic Plan. Future reports will set out revenue and capital budget proposals in detail that will help deliver the objectives of the Authority.

7 Finance and Other Resources

7.1 This report sets out the timetable and process for agreement of the necessary budgets and funding for the Authority. The Chief Finance Officer will draw on available resources to deliver the budget report and plan.

8 Legal

8.1 NECA is required by the Transport Levying Bodies (Amendment) Regulations 2015 to issue the transport levies by 15 February preceding the commencement of the financial year in respect of which it is issued.

8.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA's Constitution, at least 2 months before the calculation of the revenue budget and transport levies are required to be finalised, the

North East Combined Authority

Governance Committee

Leadership Board will produce initial outline proposals to the NECA's Overview and Scrutiny committee.

8.3 Once the consultation process has been completed, details of the final proposals in relation to the revenue budget and levies will be referred to the Overview and Scrutiny Committee.

8.4 Given the timescales set out above, the detailed proposals in relation to the revenue budget and transport levies need to be considered by the Leadership Board at its meeting on 15 November 2016 and by the Overview and Scrutiny Committee on 14 December.

9 Other Considerations

9.1 Consultation/Community Engagement

The proposed budget will be subject to a period of consultation including the Overview and Scrutiny, Governance Committee, Transport North East Committee and the North East Chamber of Commerce.

9.2 Human Rights

There are no specific human rights implications arising from this report.

9.3 Equalities and Diversity

There are no specific equalities and diversity implications arising from this report.

9.4 Risk Management

The budget proposals will include an assessment of risk facing the NECA budget, which will be used to inform the level of reserves which is determined to be prudent. This report is for information on the budget process and has no specific risk management implications.

9.5 Crime and Disorder

There are no specific crime and disorder implications arising from this report.

9.6 Environment and Sustainability

There are no specific environment and sustainability implications arising from this report.

10 Background Documents

10.1 None

11 Links to the Local Transport Plans

North East Combined Authority

Governance Committee

11.1 There are no specific links to the local transport plans arising as a result of this report.

12 Appendices

Appendix 1 – Budget Timeline

13 Contact Officers

13.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk
Eleanor Goodman, Principal Accountant,
eleanor.goodman@northeastca.gov.uk

14 Sign off

- Head of Paid Service
- Monitoring Officer
- Chief Finance Officer

Please use ✓

North East Combined Authority

Governance Committee

Appendix 1 – Budget Timeline

DATE	EVENT/MEETING	ACTION
17 January 2017	NECA Leadership Board	Formally agree levies and budget
? January 2017	NELEP Board	Final budget report
11 January 2017	Paper circulation	Final budget report published (supplemental agenda if required)
10 January 2017	LA7 Leadership Briefing	Sign off Budget report (if required)
5 January 2017	NECA CXs telecon	Sign off report for circulation on main agenda 9 January
21 December 2016	Final comments on report	Deadline for comments from Councils on draft report
14 December 2016	NECA Overview & Scrutiny Committee	Consider Budget report as part of consultation process
13 December 2016	LA7 Leadership Briefing	Informal agreement to budget/levy proposals and draft report
? December 2016	Transport North East Committee – Tyne & Wear Sub Committee	Consider/agree transport budget/levy proposals for consideration by Leadership Board (to be arranged if required)
6 December 2016	NECA Governance Committee	Consultation on budget proposals
1 December 2016	NECA CXs	Consider report to be circulated to informal Leaders' meeting
15 November 2016	NECA Leadership Board	Consider and agree draft budget report for wider consultation
24 November 2016	NELEP Board	Budget Preparation
3 November 2016	Transport North East Committee	Consider/Agree Transport budget/Levy proposals for consideration by Leadership Board
28 October 2016	LA7 Treasurers Meeting	Discuss draft budget report and identify and agree draft report for consideration by CXs/Leaders
October 2016	Meetings with individual authorities (Treasurers/CXs/Leaders)	Consult/Discuss budget proposals; identify and resolve issues
18 October 2016	NECA Leadership Briefing	Report on Draft budget proposals to be considered at November board – address and resolve key issues relating to the budget for 2017/18
6 October 2016	NECA CXs Meeting	Consider and agree budget report for informal Leaders Meeting on 18 October
4 October 2016	All budget issues identified	Budget issues to be submitted in writing to Chair / Head of Paid Service
20 September 2016	NECA Leadership Board	Consider and agree 2017/18 budget process/timetable and updated 2016/17 budget (including Devolution funds)
15 September 2016	Transport North East Committee – Tyne & Wear Sub Committee	Update on budget process, feedback in connection with the Nexus service review, the Tyne & Wear transport Levy, Tyne Tunnels budget etc.
13 September 2016	NECA Governance Committee	Update on Budget Process and Timetable and Treasury Management Mid-Year review
25 August	NECA CXs meeting	Draft report budget process and timetable
August-September 2016	Budget preparation - discussion at FDs, EDs and Transport Officer Groups	Consider and comment on NECA budget issues

North East Combined Authority

Governance Committee

DATE: 13 September 2016

SUBJECT: Annual Governance Statement 2015/16

REPORT OF: Audit, Risk and Insurance Service Manager (Newcastle City Council)

EXECUTIVE SUMMARY

The purpose of this report is to bring the final Annual Governance Statement to Members to consider its inclusion in the accounts.

The draft statement was agreed at the July Governance Committee and other than some small wording changes recommended by the external auditor there has been no major change.

RECOMMENDATION

It is recommended that the Committee agree the Annual Governance Statement for inclusion in the annual accounts and recommends it for signature by the leader of the Authority and Head of Paid Service. The Annual Governance Statement is at Appendix 1.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:
- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
 - Identify significant weaknesses and the actions that have taken place (or will take place) to address them;
 - Report these to the public in the Annual Governance Statement which is part of the Accounts.
- 1.2 An assurance framework was discussed at the April 2016 Governance Committee and evidence has been gathered against this to assess the effectiveness of governance and the internal control environment operating during 2015/16.

2 Evidence

- 2.1 The agreed assurance framework for the Combined Authority is set out below. This table shows the elements making up the framework. This process complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice and is subject to review by the Authority's external auditors with the 2015/16 final accounts.

Evidence to support each element of assurance was presented to the July Governance Committee and is summarised below:

Element of Assurance
Governance Arrangements
Statutory Officers
Members
Internal Audit Activity
Risk Management
Performance Management
External auditor and other external inspectorates
Key Partnerships

- 2.2 **Governance Arrangements** - The Combined Authority has in place a Constitution which was reviewed and approved by the Leadership Board at their annual meeting on 16 June 2015. The Constitution defines the roles and responsibilities of those charged with Governance within the Authority. There are also a number of other key documents including the NECA Order and Operating Agreement in place. This evidence and the information below provides assurance that governance arrangements have been defined.

North East Combined Authority

Governance Committee

- 2.3 **Statutory Officers** – The Monitoring Officer and Chief Finance Officer have provided signed assurance statements setting out the mechanisms they have in place and concluding that they can provide assurance that effective controls are in place. In addition to this the Monitoring Officer as the Senior Information Risk Owner (SIRO), has certified an appropriate assurance statement and has overseen the implementation of information governance audit recommendations which has resulted in a more robust control environment. Details of the audit findings and recommendations were reported to the April 2016 Governance Committee.
- 2.4 **Members** – the Governance Committee have reviewed evidence throughout 2015/16 relevant to the control and governance arrangements in place for the Combined Authority. This has included internal and external audit activity, financial records relevant to budgets and the accounts, risk management and other assurance information. Members can draw on this when giving a view of the effectiveness of control and governance arrangements in place.
- 2.5 **Internal Audit Activity** – This is considered in more detail in the internal audit annual report, which was presented to Governance Committee at its July meeting and has been presented to the Governance Committee throughout the year. The opinion based on the internal audit work for 2015/16 is that the control environment was effective and provided a substantial level of assurance.
- 2.6 **Risk Management** – A risk management strategy and policy is in place and a strategic risk register has been developed, which monitors the most significant risks and opportunities to the Combined Authority. The risk register is elsewhere on this agenda and provides evidence that there is a sound process in place for managing strategic risks and opportunities within the Combined Authority.
- 2.7 **Performance Management** – performance information from each theme is reported to the Leadership Board on a regular basis and has not identified any issues which would suggest a significant weaknesses in the control environment.
- 2.8 **External auditor** – The external auditor Deloitte issued an unqualified opinion on the NECA 2014/15 accounts and an unqualified value for money opinion. External audit (Mazars) are carrying out the audit of the Authority's 2015/16 accounts and to date no significant issues have been identified.
- 2.8.1 **Comments to Annual Governance Statement 2015/16**
Mazars have also reviewed the draft 2015/16 Statement and the document presented to the July Governance Committee has been amended to take their comments into account. The comments are summarised below and incorporated in Appendix 1.
- Section 3 – The supporting narrative regarding the roles and responsibilities of the Head of Paid Service, Monitoring Officer and Chief Finance Officer

North East Combined Authority

Governance Committee

functions has been further strengthened to demonstrate effective arrangements are in place for the discharge of their duties, as defined in the Constitution

- Section 3 – Evidence to demonstrate that the Administration of the Authority’s policies on anti-fraud and corruption is undertaken by Internal Audit has been included. (Governance Committee at their July meeting reviewed the anti-fraud and corruption policy and their comments have now been incorporated in the revised policy, which is presented elsewhere on this agenda).
- Section 4 – The narrative has also been amended to demonstrate that the role of the Internal Audit Manager conforms to the CIPFA Statement 2010, on the Role of the Head of Internal Audit

2.9 **Key Partnerships** – The list of significant partnerships has been updated during 2015/16. This has been used to identify those partnerships where the Authority needs assurance on their control environment to feed into its Annual Governance Statement. Based on evidence from the returned assurance statements, the partnerships have stated that they have effective control environments in place.

2.10 Nexus is not included in the significant partnership register due to its status as an officer of the Combined Authority, however a separate assurance statement was signed by their Director of Finance, and presented to the July Committee, which states Nexus have an effective control environment in place.

Following the July Governance Committee the Director of Finance was asked to consider whether a recent Nexus fraud should be highlighted on the Nexus Assurance Statement. The Director of Finance confirmed that in November 2015 a fraud concerning the illegal acquisition of Metro tickets from ticket vending machines was detected. This resulted in a full investigation being carried out by Nexus’ Head of Internal Audit, however due to the value of the fraud it was not included within Nexus’ Annual Governance Statement, therefore was not noted within the attached Partnership Assurance Statement, which therefore remains unchanged from that presented to the July Committee.

3 Outcomes of the Review of Assurances

3.1 The review highlighted no significant weakness in the internal control environment during 2015/16 or areas which require improvement.

4 Next Steps

4.1 The final Annual Governance Statement will be signed by the Leader of the Combined Authority and the interim Head of Paid Service and included with the Annual Accounts.

5 Potential Impact on Objectives

North East Combined Authority

Governance Committee

5.1 No direct impact on objectives.

6 Finance and Other Resources

6.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council under the SLA for 2015/16.

7 Legal

7.1 No direct legal implications arising specially from this report.

8 Other Considerations

8.1 Consultation/Community Engagement

No external consultation or community engagement required.

8.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

8.3 Equalities and Diversity

There are no equalities and diversity implications directly arising from this report.

8.4 Risk Management

Risk management will be considered as part of the development of the Annual Governance Statement but there are no specific risk implications from the report.

8.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

8.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

9 Background Documents

9.1 The Annual Governance Statement Framework and completed Partnership Assurance Statements are available.

10 Links to Plans in the Policy Framework

North East Combined Authority

Governance Committee

10.1 No direct link to the Policy Framework

11 Appendices

11.1 Appendix 1 - Annual Governance Statement

12 Contact Officers

12.1 Philip Slater, Audit, Risk and Insurance Service Manager

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Tel: 0191 2116511

13 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

Annual Governance Statement 2015/16

Section 1	Scope of Responsibility
Section 2	The Purpose of the Governance Framework
Section 3	The Governance Framework
Section 4	Annual Review of Effectiveness of Governance Framework
Section 5	Devolution
Section 6	Significant Weaknesses in Governance and Internal Control
Section 7	Conclusion

Section 1: Scope Of Responsibility

The seven local authorities of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland, as the already established North East Leadership Board came together in April 2014 to establish a Combined Authority for the area. Building on the successful track record of joint working we now have an accountable, stable and enabling platform which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. We are able to bring together a democratic mandate with a strong business voice which will enable us to plan for growth in the long term in a global context.

The Combined Authority works closely with the Local Enterprise Partnership to deliver the objectives of the Combined Authority and deliver the Strategic Economic Plan, which sets out our ambitious vision to strengthen the area's economy and provide more opportunities for businesses and communities.

We (the North East Combined Authority) are responsible for ensuring that our business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority's Leadership Board and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

- (i) the governance of our affairs and
- (ii) facilitating the effective exercise of our functions, including arrangements for the

management of risk

In relation to (ii) the Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to:

- a) identify and prioritise the risks to the achievement of our, aims and objectives; and
- b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Combined Authority has developed a Risk Management Strategy and strategic risk register which is reported to regular meetings of the Authority's Governance Committee. This information can be found under the Governance Committee on the Authority's website at: <http://www.northeastca.gov.uk/committee-meetings/governance-committee-background-information-papers>

Section 2: Purpose Of The Governance Framework

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, creating the conditions of economic growth and investment. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2016 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of Regulation 3 of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement, therefore in doing so complies with the principles of corporate governance set out in the CIPFA/SOLACE Good Governance Framework 2012.

Section 3: The Governance Framework

Our Governance Framework is developing, following the formation of the North East Combined Authority in April 2014 and is maturing with the organisation. As such systems, processes and controls are developing and adapting to meet the needs of the Combined Authority going forward, to ensure we are in the best position to achieve our objectives.

The core principals and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

Focusing on our objectives and outcomes

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our Strategic Economic Plan, to create the best possible conditions for growth in jobs, investment and living standards, enabling residents to develop high-level skills so they can benefit long into the future.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through the budget and performance management framework.

Members and officers have clearly defined roles and responsibilities

2.1 We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and officers have been agreed by the Combined Authority.

We promote high standards of conduct and behaviour

3.1 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for Members and officers working on behalf of the Authority. Governance Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board. The Constitution is available on the NECA website. [NECA Constitution](#)

Transparent decision making subject to scrutiny and risk management

4.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The interim Monitoring Officer (Head of Law and Governance, North Tyneside Council) advises on compliance with our policy framework, ensuring that decision making is lawful and fair. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the interim Chief Finance Officer.

4.2 We ensure that our Governance Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

4.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public. Administration of the Authority's policies on anti-fraud and corruption is undertaken by Internal Audit.

Developing the capacity of members and officers to be effective

5.1 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

Engaging with local people and stakeholders

6.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

6.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

Section 4: Annual Review Of Effectiveness Of Governance Framework

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by officers and Members of Governance Committee who provide independence and challenge. The outcomes of the review are considered by the Governance Committee.

The review is informed by

- (a) The views of our internal auditors, reported to Governance Committee through regular progress reports, and the Annual Internal Audit Opinion.
- (b) An annual review of the effectiveness of internal audit (as required by Public Sector Internal Audit Standards).
- (c) The views of our external auditors, reported to Governance Committee through regular progress reports, and the annual Internal Audit Opinion, adhering to the principles in CIFPA Statement 2010 on the role of the Head of Internal Audit.
- (d) The activities and operations of the themes (economic development and regeneration, employability and inclusion, and transport) and significant partnerships through written assurance statements.
- (e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements.
- (f) The views of Members through the ongoing activities of Governance Committee (Governance Committee includes the activity of an Audit Committee and a Standards Committee, providing independent assurance on the effectiveness of the governance and internal control environment). And an Overview and Scrutiny Committee who review and scrutinise Leadership Board decisions as well as other Transport committee's decisions.
- (g) The Risk Management Process, particularly the Strategic Risk Register.
- (h) Performance information which is reported to Leadership Board and other meetings on a regular basis.
- (i) The assurance framework that is in place to ensure Growth Fund monies are subject to appropriate levels of internal control and are focussed on the delivery of the Combined Authority's objectives and delivery of the Strategic Economic Plan.

Section 5: Devolution

The Combined Authority has signed a proposed devolution agreement with Government designed to build a stronger economy, generate more and better jobs and improve transport links and skills training throughout the North East. The Authority (members, officers and partners) continue to develop closer working relationships with all stakeholders to develop key regional strategies and delivery plans, working towards the successful delivery of the Devolution agenda. There is continued collaboration between the NELEP and NECA to prioritise and manage resources, assets and funding through a number of investment programmes to support delivery of the Strategic Economic Plan.

The Order and Regulations to establish the North East Mayoral Combined Authority are expected to be made in the Autumn of 2016 with a Mayor elected in May 2017.

Consequently the NECA constitution is being revised to reflect new governance structures and devolved powers from Government.

Section 6: Significant Weaknesses In Governance and Internal Control

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, that value for money is being secured and that significant risks impacting on the achievement of our objectives have been mitigated.

The review highlighted no significant weaknesses in governance or internal control during 2015/16.

Section 7: Conclusion

We consider the governance and internal control environment operating during 2015/16 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

The annual review has shown that the arrangements are in place and operating as planned.

We have been advised on the implications of the review by the Governance Committee. We propose over the coming year to continue to improve our governance and internal control arrangements.

Interim Head of Paid Service
Full Name:

Leader of the Authority
Full Name:

Signature:

Signature:

Date:

Date:

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North East Combined Authority

Governance Committee

DATE: 13 September 2016

SUBJECT: Anti-Fraud and Corruption Policy

REPORT OF: Audit, Risk and Insurance Service Manager

EXECUTIVE SUMMARY

As noted within the Authority's Constitution it is the responsibility of the Governance Committee to consider the effectiveness of risk management arrangements and oversee the anti-fraud and corruption arrangements, seeking assurances from Statutory Officers and Internal audit that the arrangements for the detection of fraud are effective.

The Committee reviewed the policy at its June meeting and made a number of comments which have been incorporated in the revised version at Appendix A.

RECOMMENDATION

It is recommended that the Committee agree the revised document for inclusion in neca's Constitution.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The Combined Authority have an agreed Anti-Fraud and Corruption Policy in place to minimise the risk of corruption and theft or other misuse of public money and assets. The Policy is underpinned by staffing policies, internal control systems, and the Authority's Whistleblowing procedures, which provide the framework to detect and report fraudulent activity.
- 1.2 It is the responsibility of the Governance Committee to oversee implementation of the Policy as necessary, seeking assurances from Statutory Officers and that of Internal Audit that the arrangements for the detection of possible fraud continue to be effective. This responsibility is considered in the production and delivery of the Internal Audit Plan.
- 1.3 At Appendix A are the revised policies including suggested amendments made by the Governance Committee at the June 2016 Meeting. These amendments are shown in red.

2 Proposal

- 2.1 Governance Committee to agree the revised Anti-Fraud and Corruption Policy.

3 Next Steps

- 3.1 The Anti-Fraud and Corruption Policy be incorporated in neca's Constitution.

4 Potential Impact on Objectives

- 4.1 No direct impact on objectives.

5 Finance and Other Resources

- 5.1 No direct financial implications arising from this report.

6 Legal

- 6.1 No direct legal implications arising specially from this report.

7 Other Considerations

7.1 Consultation/Community Engagement

No external consultation or community engagement required.

North East Combined Authority

Governance Committee

7.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

7.3 Equalities and Diversity

There are no equalities and diversity implications directly arising from this report.

7.4 Risk Management

There are no risk management implications directly arising from this report, however the internal control systems, which includes risk management will provide the framework to deter and/or detect potential fraud.

7.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

- 8.1 The NECA Constitution, which includes the Anti-Fraud and Corruption Policy and Whistleblowing procedures are available on the Authority's website.

[NECA Constitution](#)

9 Links to Plans in the Policy Framework

- 9.1 No direct link to the Policy Framework

10 Appendices

- 10.1 Appendix A – Anti-Fraud & Corruption Policy and Whistleblowing Policy & Procedure

11 Contact Officers

- 11.1 Philip Slater, Audit, Risk and Insurance Service Manager
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Tel: 0191 2116511

North East Combined Authority

Governance Committee

12 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

North East Combined Authority

Governance Committee

Appendix A

Anti-Fraud and Corruption Policy

1. The Combined Authority's Commitment

The Combined Authority is committed to sound corporate governance and supports the Seven Principles of Public Life for the conduct of its Members and Officers, namely:

- Selflessness;
- Integrity;
- Objectivity;
- Accountability;
- Openness;
- Honesty; and
- Leadership.

Fraud and corruption cheats the local taxpayers who have the right to expect Members and Officers to perform their functions in an honest and proper manner.

The Combined Authority seeks in the first instance to prevent fraud and corruption and will take all action necessary to identify any occurrences if suspected. If any such instances are detected they will be investigated in a correct and agreed manner. The Combined Authority pledges to pursue the recovery of losses and the suitable punishment of those responsible.

2. Prevention

Prevention will be achieved through:

- staffing policies
- making members aware of their responsibilities
- internal control systems and
- liaison with outside agencies

2.1. Officers

As a public employer, the Combined Authority is obliged to maintain, and is entitled to expect, high standards of conduct among its officers to ensure that public confidence in their integrity and impartiality is not undermined. The public is entitled to demand conduct of the highest standard and that Officers work honestly and without bias in order to achieve the Authority's objectives.

The Combined Authority recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at recruitment stage to establish, as far as possible, the propriety and integrity of potential staff. In this regard temporary and contract staff are treated in the same manner as permanent officers.

North East Combined Authority

Governance Committee

Managers should ensure that procedures laid down by the Authority's Personnel Officer in the Recruitment and Selection Guidelines and Code of Practice are followed and, in particular, that written references are obtained before employment offers are confirmed.

Officers are expected to follow the Authority's Code of Conduct which includes regulations regarding the registration of interests, gifts and hospitality. Officers are reminded that they must operate within Section 117 of the Local Government Act 1972 regarding the disclosure of pecuniary interests in contracts relating to the Combined Authority, or the non-acceptance of any fees or rewards whatsoever other than their proper remuneration.

The Combined Authority recognises that the continuing success of its anti-fraud and corruption strategy and its general credibility will depend largely on the effectiveness of its training programmes and the responsiveness of Officers throughout the organisation. To facilitate this, the Authority supports the concept of induction and continuing training and Officer appraisal, particularly for Officers involved in internal control systems, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced. The Authority has in place a Disciplinary Procedure for all Officers and the possibility of disciplinary action against Officers who ignore such training and guidance is clear.

2.2. Members

Members are expected to operate honestly and without bias. Their conduct is governed by:

- The Code of Conduct for Members
- The Constitution

These matters include rules on the declaration and registration of potential areas of conflict between Members' duties and responsibilities on behalf of the Combined Authority, and any other areas of their personal or professional lives. These will be regularly drawn to the attention of Members.

2.3. Internal Control System

The internal control system comprises the whole network of financial, operational and managerial systems established within the Constituent Authorities to ensure that objectives of the Combined Authority are achieved in the most economical and efficient manner.

The Financial Regulations of the Combined Authority (see Part 5) provide the framework for financial control. Under Financial Regulations Managers are required to ensure that:

- Arrangements, guidelines and procedures for the proper administration of the financial affairs of the Combined Authority are operated in accordance with Financial Regulations;

North East Combined Authority

Governance Committee

The Chief Finance Officer is informed where there has been a failure to comply with Financial Regulations or where amendment or revision of a regulation is considered necessary; and

The Chief Finance Officer is informed as soon as possible of any matters involving, or suspected of involving, irregularity in the use of the Combined Authority resources or assets.

The **Internal** Audit service of the Constituent Authority identified by the Head of Paid Service for this purpose independently monitors the existence, appropriateness and effectiveness of internal controls.

2.4. Liaison

Arrangements are in place now and will continue to develop which encourage the exchange of information between the Combined Authority and other agencies on national and local fraud and corruption activity.

The Authority acknowledges that in order to prevent fraudsters using multiple identities and addresses, it cannot afford to work in isolation and must liaise with other organisations. To this end the Authority has a number of external contacts that include:

- Northumbria **and Durham** Police
- District Treasurers
- Universities and Colleges
- UK Border Agency
- DWP
- Jobcentre Plus
- Federation Against Software Theft (F.A.S.T.)

All liaisons are subject to adherence to Data Protection Legislation and regard to the confidentiality of information.

2.5. Partners

Arrangements are in place within partner organisations **such as** Nexus and TT2 to identify, investigate and appropriately report incidents of fraud and corruption which may occur within those organisations. **Where fraud is identified which has resulted from a significant weakness in controls in the organisation and this would impact on the assurance the Combined Authority could place on governance arrangements, this will be reported to the Chief Finance Officer. The Chief Finance Officer will subsequently report details of the incident and any potential impacts for the Combined Authority to the Governance Committee.**

2.6. Strategy

The Audit and Strategic Risk service of the Constituent Authority identified by the Head of Paid Service for this purpose will implement the policy on the Combined Authority's behalf.

North East Combined Authority

Governance Committee

3. Detection and Investigation

Where fraud and corruption still happen, systems should assist in revealing the occurrences and people should be encouraged to do likewise. They must then be investigated in a fair and impartial manner.

3.1. Detection

The array of preventative systems, particularly internal control systems and audit, within the Authority generally should be sufficient in themselves to deter fraud, but they have also been designed to provide indications of any fraudulent activity.

The Combined Authority's officers are an important element in its stance on fraud and corruption and they are positively encouraged to raise any concerns that they may have on any issues associated with the Authority's activities. They can do this in the knowledge that such concerns will be treated in confidence and properly investigated. If necessary, a route other than a line manager may be used to raise such concerns.

Examples of possible routes are:

- **Internal** Audit Service
- Chief Finance Officer
- Monitoring Officer

Members of the public are also encouraged to report concerns through any of the above routes or, if appropriate, through the Combined Authority's complaints procedure.

If Officers feel unable to raise their concerns through any of the internal routes, then they may wish to raise them through Public Concern at Work (telephone 020 7404 6609), a registered charity whose services are free and strictly confidential. See also Part 6.5 Whistleblowing Policy.

The Code of Conduct requires Officers of the Combined Authority to report any illegality or impropriety to their manager or supervisor. Financial Regulations require the Chief Finance Officer to investigate matters that involve, or may involve, financial irregularity.

3.2. Investigation

Depending on the nature and the anticipated extent of the allegations, Internal Audit will normally work closely with management and other agencies, such as the police, to ensure that all allegations are properly investigated and reported upon and where appropriate, maximum recoveries are made for the Authority. The follow up of any allegation of fraud and corruption received will be through agreed procedures which ensure that:

- matters are dealt with promptly;
- all evidence is recorded;
- evidence is sound and adequately supported;
- all evidence is held securely;
- where appropriate, the police and the Authority's Insurance Officer are notified;
- the Authority's Disciplinary Procedures are implemented; and
- the rules of natural justice are incorporated.

The procedures and reporting lines are an integral part of the Combined Authority's anti-fraud culture that ensures:

North East Combined Authority

Governance Committee

- consistent treatment of information about fraud and corruption;
- proper investigation by an independent and experienced audit team;
- the proper implementation of a fraud investigation plan;
- restitution or compensation; and
- the optimum protection of the Authority's interests.

Where financial impropriety is discovered, referral to the police is a matter for the Chief Finance Officer, in consultation with the relevant officers of the Authority and the Chair of NECA.

In deciding whether to recommend referral the following factors are taken into account:

- the amount of the loss and duration of the offence;
- the suspect's physical and mental condition;
- voluntary disclosure and arrangement for restitution;
- the strength of the evidence; and
- reputational damage.

The Combined Authority's Disciplinary Procedures will be used as appropriate irrespective of police involvement.

There is, of course, a need to ensure that any investigation process is not misused and, therefore, any abuse, such as raising unfounded malicious allegations may be dealt with as a disciplinary matter and may leave the complainant open to an action for defamation. The External Auditor also has powers to investigate independently fraud and corruption and the Combined Authority can make use of these services.

4. Summary

The Authority has a clear commitment to minimising the possibility of corruption and theft or other misuse of public money and assets. It pledges to prevent fraud and corruption but to take all action necessary to identify fraud and corruption if suspected, and pursue the recovery of losses and the punishment of those responsible.

The Authority's Officers and Members are expected to have the highest standards of conduct and to be vigilant in combating fraud and corruption in all its guises.

The Authority has implemented a clear network of systems and procedures to assist in the fight against fraud and corruption. These arrangements will keep pace with any future developments, in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operation or related responsibilities.

North East Combined Authority

Governance Committee

Appendix A

Whistleblowing Policy and Procedure

1. Introduction

The NECA is committed to the highest possible standards of openness, probity and accountability and will not tolerate malpractice or wrongdoing.

The NECA is therefore committed to a policy for confidential reporting of concerns, “whistleblowing”, which seeks to protect individuals who make certain disclosures with regard to any instance of malpractice or wrongdoing and to investigate them in the public interest.

Whistleblowing is when a member of staff raises concerns about the activities of the organisation they work for which are ethically or legally questionable.

The aims of the policy are to:

- Provide for a culture of zero tolerance toward fraud and corruption.
- Encourage officers and others with serious concerns about any aspect of the NECA’s work to feel confident to come forward and voice those concerns.
- Provide ways for officers to raise concerns at an early stage and in the right way and enable them to get feedback on any action taken.
- Ensure that officers know what to do if they are not satisfied with actions taken.
- Provide re-assurance that officers who raise concerns in good faith can do so without fear of reprisals or victimisation.

This policy covers any wrongdoing relating to unlawful conduct, financial malpractice or dangerous working environments.

It is available for use by all Officers of the NECA and Officers of Constituent Authorities providing services to the NECA, its committees, sub-committees and joint committees. It is not to be used where other more appropriate procedures are available. There are existing procedures which enable officers to lodge a grievance relating to their conditions of employment, raise matters of harassment or to make a complaint. This policy covers concerns that fall outside the scope of these existing procedures.

The NECA will seek to ensure that its stance on whistleblowing is widely publicised and that officers have access to appropriate guidance.

2. Whistleblowing Procedures for Officers

Officers are often the first to realise that there may be something seriously wrong within an authority. Normally Officers would be expected to raise any concerns initially with their line manager. However they may feel that expressing their concerns would be disloyal to their colleagues or to the NECA or may also fear harassment or victimisation. It may be easier to ignore these concerns than report what may just be a suspicion of malpractice.

Whistleblowing is the process for raising a concern about suspected wrongdoing, especially in circumstances where the whistleblower feels forced to raise that concern

North East Combined Authority

Governance Committee

outside the normal management reporting line. For instance, the whistleblower may be concerned about the actions of their own line management, or about the failure of their line management to act over suspected wrongdoing on the part of others.

The Whistleblowing policy encourages and enables officers and others with serious concerns about any aspect of the NECA's work or those engaged in work for the NECA to come forward and voice those concerns. It recognises that most cases will need to proceed on a confidential basis. At the same time, the provisions of the Public Interest Disclosure Act 1998 (PIDA) provide protection from harassment and victimisation for officers who raise concerns in good faith.

3. Aims and scope of this Policy

This policy aims to:

- Make you feel confident to raise concerns and to question and act upon concerns about practice.
- Give you avenues to raise your concerns and receive feedback on any action taken.
- Guarantees that you receive a response to your concerns and ensures that you are aware of the process to follow if you are not satisfied.
- Reassure you that you will be protected from possible reprisals or victimisation.

There are existing procedures in place if you have a grievance relating to your own employment or consider that you are being harassed due to your race or sex or age, or if you are concerned about health and safety risks, including risks to the public as well as to other Officers. Indeed you are under a legal obligation to report to your supervisor or manager any work situation which you consider to represent:

- a danger to the health and safety of yourself, fellow Officers or members of the public; or
- a shortcoming in the Authority's arrangements for health and safety.

If you are reluctant to raise such health and safety concerns with your supervisor or manager, or if you have raised them and are concerned about the response, then arrangements exist for you to raise the health and safety concerns with the Head of Paid Service and/or with Health and Safety Representatives from the relevant trade union.

This policy is intended to cover concerns that fall outside the scope of other procedures. These include:

- conduct which is an offence or a breach of law;
- disclosures related to miscarriages of justice;
- health and safety risks, including risks to the public as well as other Officers;
- damage to the environment;
- the unauthorised use of public funds;
- fraud and corruption; sexual or physical abuse of clients; any attempt to prevent disclosure of any of the above, or
- other conduct which gives you cause for concern.

North East Combined Authority

Governance Committee

Thus any serious concerns that you have about any aspect of service provision or the conduct of your staff or members of the Combined Authority or others acting on behalf of the Combined Authority can be reported under this policy. This may be about something that:

- makes you feel uncomfortable in terms of known standards, your experience or the standards you believe the Combined Authority subscribes to; or
- is against the Combined Authority's Standing Orders and policies; or
- falls below established standards of practice; or
- amounts to improper conduct.

This policy supplements and does not replace the corporate complaints procedure, or the grievance procedure and other procedures established to deal with aspects of harassment i.e. sexual, racial and age harassment, and with health and safety concerns.

4. Harassment or Victimisation

The Combined Authority is committed to good practice and high standards and aims to be supportive of its Officers.

The Combined Authority recognises that the decision to report a concern can be a difficult one to make. However uncovering malpractice will be doing a service to the Authority. You will be doing your duty to your employer and those for whom you are providing a service.

The Combined Authority will fulfil its responsibility to ensure that you are NOT harassed, victimised or otherwise disadvantaged when you raise a concern. Any allegation concerning an Officer who engages in any form of victimisation or harassment against you as a result of your raising a concern will be the subject of a thorough investigation and disciplinary action will be taken if the case is proved.

Allegations by an Officer who is the subject of disciplinary investigations or proceedings concerning the conduct of those proceedings can only be raised through the disciplinary appeals procedures.

5. Confidentiality

All concerns will be treated in confidence wherever possible and every effort will be made to preserve your anonymity if you so wish. You may need however to come forward as a witness, but if you wish to be supported by **your trade union or another** representative of your choice then this would be available to you.

6. Anonymous allegations

This policy encourages you to put your name to your allegation whenever possible. Concerns expressed anonymously are much less powerful but they will be considered so far as is possible or practicable by the Combined Authority. **Your trade union can act for you in this.**

7. Untrue allegations

If you make an allegation in good faith, but it is not confirmed by the investigation, no

North East Combined Authority

Governance Committee

action will be taken against you. If however, you make an allegation maliciously or for personal gain, disciplinary action may be taken against you.

8. How to raise a concern

If you are an officer of the Combined Authority, as a first step, you should raise concerns with your immediate manager or their manager. This depends on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice, for example if you believe that your immediate manager or their managers are involved, you should approach the Monitoring Officer.

The manager receiving notification of concerns under this policy will inform the Monitoring Officer that a confidential report has been received and provide a copy. If the concern relates to financial irregularities or failures of financial controls the manager receiving the report must immediately notify the Chief Finance Officer. Concerns may be raised verbally or in writing. Reports should be sent to your immediate manager or their superior or to the appropriate Chief Officer and a copy sent to the Monitoring Officer.

If you are a contractor, as a first step, you should normally raise concerns with your manager, who will then inform the lead officer who is dealing with the particular contract. If you do not have a manager, you should raise your concerns direct with the lead officer. This depends on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice. For example, if you believe that your manager or the lead officer is involved, you should approach the Monitoring Officer direct. Otherwise, the lead officer receiving notification of concerns under this Policy will inform the Monitoring Officer that a confidential report has been received and provide a copy. If the concern relates to financial irregularities or failures of financial controls the lead officer receiving the report will also immediately notify the Chief Finance Officer.

Concerns may be raised verbally or in writing. A copy of any report you send to your manager or lead officer should also be sent to the Monitoring Officer for monitoring purposes.

The Monitoring Officer is responsible for the maintenance and operation of this policy and will monitor how the complaint is handled and ensure that the requirements of this policy are fulfilled.

The earlier you express the concern the easier it will be to take action. Officers and Contractors can get confidential, independent advice from the charity Public Concern at Work on 0207 404 6609. Their website is at www.pcaw.co.uk You may wish to consider discussing your concern with a colleague first and you may find it easier to raise the matter if there are two (or more) of you who have had the same experience or concerns.

North East Combined Authority

Governance Committee

You can invite your trade union or professional association representative or a friend to be present during any meetings or interviews in connection with the concerns you have raised.

Concerns can also be raised through your trade union.

9. How the Combined Authority will respond

The Authority will respond to your concerns, and it will be necessary to investigate your concerns but this is not the same as either accepting or rejecting them.

Within **3 working days** of a concern being raised, you will be sent a written response:

- acknowledging that the concern has been received;
- indicating how it is proposed to deal with this matter;
- giving an estimate of how long it will take to provide a final response;
- telling you whether any enquiries have been made; and
- supply you with information on staff support mechanisms.

The Monitoring Officer will be sent a copy of this response.

Where appropriate, matters raised may:

- Be investigated by management, internal audit, or through the disciplinary process.
- Be referred to the police or other statutory agencies.
- Be referred to the external auditor.

In order to protect individuals and those about whom concerns are raised, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of specific procedures (for example, child protection or discrimination issues) will normally be referred for consideration under those procedures.

Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required this will be taken before any investigation is conducted.

The amount of contact between the individual considering the issues and you will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, the investigating officers, will seek further information from you.

Where any meeting is arranged, and this can be off-site if you so wish, you can be accompanied by a trade union or professional association representative or a friend. The Combined Authority will take steps to minimise any difficulties which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings the Combined Authority will arrange for you to receive advice about the procedure.

The Combined Authority accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, we will inform you of the NECA

North East Combined Authority

Governance Committee

outcomes of any investigation.

10. The Responsible Officer

The Monitoring Officer has overall responsibility for the maintenance and operation of this policy. That officer maintains a record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and may report as necessary to the Leadership Board, but in such a way that your confidentiality will be preserved.

It is the responsibility of any manager/director who receives a whistleblowing report to provide the Monitoring Officer with:

- a copy of the original report immediately;
- the initial written response to the person raising the concern; and
- any further responses.

The Monitoring Officer as soon as possible must also be informed of the outcome(s) of any investigation and any actions instigated as a result.

11. How the matter can be taken further

This policy is intended to provide Officers and Contractors with an avenue within the Combined Authority to raise concerns and hopes any whistleblower would be satisfied with any action taken. If you are not satisfied with the outcome of the confidential report, a request in writing for the investigation and outcome to be reviewed can be made to the Head of Paid Service. If you remain dissatisfied and want to take the matter outside of the Combined Authority, advice is available from trade unions and local Citizens Advice Bureau on the options that are available.

One possibility is that you may wish to rely on your rights under the Public Interest Disclosure Act 1998. This Act gives you protection from victimisation if you make certain disclosures of information in the public interest. The provisions are quite complex and include a list of prescribed persons outside of the Combined Authority who can be contacted in certain circumstances (see The Public Interest Disclosure (Prescribed Persons) (Amendment) Order 2015 www.legislation.hmso.gov.uk). You should seek advice on the effect of the Act from the persons referred to above.

If you do take the matter outside of the Combined Authority, you should ensure that you do not disclose information where you owe a duty of confidentiality to persons other than the Combined Authority (e.g. service users) or where you would commit an offence by making disclosure.

In order to ensure that you do not make any such disclosures it is advisable to check the position with the Monitoring Officer.

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Governance Committee

DATE: 13 September 2016

SUBJECT: Strategic Risks and Opportunities Register

REPORT OF: Audit, Risk and Insurance Service Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide members with an update of the Strategic Risks and Opportunities for the North East Combined Authority.

A new risk has been identified around future funding uncertainties following the referendum result to leave the European Union.

The risk priorities of the devolution risks have been increased from Amber to Red. This is also as a result of the uncertainties around the potential impact of future European funding and the impact the referendum result has upon the parliamentary timetable and timeline for establishing the Mayoral Combined Authority.

RECOMMENDATIONS

Governance Committee are asked to:

- Review and where necessary challenge the outcomes of the strategic risk review, as well as highlight additional risks that may need to be considered for inclusion
- Acknowledge the new risk around funding uncertainties
- Acknowledge the change in the devolution risk priorities from Amber to Red
- Note that a senior officer will be assigned to each strategic risk and opportunity. They will become the risk action manager and be responsible for managing the risk and delivery of the mitigation activity on behalf of the Leadership Board
- Agree to receive a verbal update on Devolution from the Chief Finance Officer following the Leadership Board meeting on the 6 September 2016

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 A new risk has been identified by the Chief Finance Officer around the uncertainty of future funding opportunities following the referendum result to leave the European Union. The North East Local Enterprise Partnership (NELEP) have undertaken analysis of the potential impact on European Structural Investment Funding for the North East and are developing an action plan, which will be communicated to the NELEP and Leadership Boards. The risk description and mitigation activity can be seen at Appendix B.
- 1.2 The risks around Devolution have also been revisited and priorities updated in consultation with the Devolution Programme Team. This has resulted in the risk priorities for the risks which describe the governance review and future devolution of funding and powers being increased from Amber to Red. This is as a result of the uncertainties around the Governments plans regarding the loss of European funding and the parliamentary timetable for establishing the Mayoral Combined Authority. A summary of the changes can be seen at Appendix A.
- 1.3 Appendices A and B provide the Committee with details of each risk and opportunity, including direction of travel. The Toolkit at Appendix C is used to determine the risk priority.
- 1.4 The strategic risk register only contains high level risks and opportunities covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan, continue to be monitored within the themes. Nexus continue to report to the Transport North East (Tyne and Wear) Sub Committee.

2 Proposals

- 2.1 NECA will continue to develop the strategic risk register to record, monitor and report the strategic risks and opportunities to the Governance Committee at 6 monthly intervals, utilising support from officers.

3 Next Steps

- 3.1 The risk register will be closely monitored to ensure the mitigation plans and next steps are delivered. Following consultation with the Authority's Statutory Officers, each risk will be assigned to one lead senior officer who will become the Risk Action Manager on behalf of the Leadership Board. They will be responsible for ensuring the risk is regularly reviewed and mitigation activity is successfully delivered.

4 Potential Impact on Objectives

- 4.1 The development of the strategic risk register will not impact directly on the objectives of the Authority's policies and priorities, however the approach to strategic risk management will support delivery of aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

5 Finance and Other Resources

North East Combined Authority

Governance Committee

5.1 There are no direct financial implications arising from this report. Risk Management work is supplied to NECA through a Service Level Agreement with Newcastle City Council.

6 Legal

There are no direct legal implications arising specifically from this report.

7 Other Considerations

7.1 Consultation/Community Engagement

Following development of the strategic risk register, a risk management agenda item will be added to the Governance Committee's forward plan and the risks and opportunities will be reviewed every 6 months.

7.2 Human Rights

There are no Human Rights implications directly arising from this report

7.3 Equalities and Diversity

There are no equalities and diversity implications directly arising from this report

7.4 Risk Management

There are no direct risk management implications from this report. The approach to risk management is documented within the agreed policy and strategy.

7.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

8.1 There are no background documents

9 Links to Plans in the Policy Framework

9.1 The Risk Management Policy and Strategy and approach to strategic risk management going forward, will support delivery of the Strategic Economic Plan and Local Transport Plans, by acknowledging the biggest threats to their delivery.

10 Appendices

- Appendix A – 'Risk at a glance' shows the risk priority and direction of travel
- Appendix B – Provides a detailed assessment of the strategic risks and opportunities and future activity to reduce the overall risk exposure
- Appendix C – Risk Analysis Toolkit determines the risk priority

11 Contact Officers

North East Combined Authority

Governance Committee

11.1 Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council.
Philip.slater@newcastle.gov.uk.
Telephone - 0191 2116511

12 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

North East Combined Authority

Governance Committee

Risk at a glance		Appendix A
Strategic Risks and Opportunities		
Risk Title & Description	Risk Priority	Direction of Travel
Devolution		
Governance Review - Agreement not reached within agreed timescales As part of the Governance Review if full agreement is not reached to the proposed functions and powers included in the draft Scheme by the statutory deadline, this will impact on the decision to create a mayoral Combined Authority.	Red 16	Deteriorating ↓
Risk to the current and future devolution of funding, powers and responsibilities Failure to deliver the Devolution agenda, and secure future negotiations with the Government for delegation of further powers and responsibilities, could occur if the Combined Authority (members, officers, and partners) do not continue to strengthen relationships with all stakeholders to develop key regional strategies and delivery plans.	Red 12	Deteriorating ↓
European Funding - Failure to secure funding Failure to secure funding previously obtained through European Structural Investment Funding Schemes will jeopardise delivery of the Strategic Economic Plan.	Red 16	New Risk
Operational		
Lack of Operational Capacity and Clarity of Roles and Responsibilities There is a lack of clarity and shared understanding in the constituent authorities of the roles and responsibilities of staff working on Devolution and supporting the Combined Authority. This may result in duplication of activity and conflicting priorities with existing resources not being fully utilised to effectively support the Combined Authority/Leadership Board in the delivery of the devolution agenda.	Amber 9	Static ↔
Resources		
Lack of qualified and experienced staff risk the delivery of proposed projects and schemes The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver all the projects and schemes relating to Devolution, within the constraints of approved funding streams, timeframes, conditions and performance criteria.	Amber 9	Deteriorating ↓
Partnerships		
Opportunity to strengthen partnerships The need for effective governance and partnership management, supported by clear and timely communications will provide the opportunity to strengthen existing partnerships in the region and beyond. This will encourage the development of new partnerships across the public and private sector helping to drive forward change and successfully deliver the benefits and outcomes of the Devolution Deal across the region.	Amber 9	Static ↔

North East Combined Authority

Governance Committee

Appendix B

<p>Devolution - Governance Review - Agreement not reached within agreed timescales</p> <p>As part of the Governance Review if full agreement is not reached to the proposed functions and powers included in the draft Scheme by the statutory deadline, this will impact on the decision to create a mayoral Combined Authority.</p>	<p align="center">Risk Owner North East Leadership Board</p>			
<p>Cause(s):</p> <ul style="list-style-type: none"> Agreement is not reached by Leadership Board to the proposed powers to be included in the Draft Scheme within the agreed timescales resulting in stakeholder consultation being delayed and the possibility of the scheme not being completed before the Mayoral Combined Authority Order is laid before parliament Role and powers of Elected Mayor cannot be signed off and included in the Scheme which will result in the Mayor being created with 'generic' defined powers 	<p align="center">Risk Score Mitigating the risk will ensure that the governance review is completed and Government Timetable is met</p> <table border="1"> <tr> <td data-bbox="834 488 1139 640"> <p align="center">July Assessment Amber 9 Likelihood –Medium Impact – Significant</p> </td> <td data-bbox="1139 488 1460 640"> <p align="center">September Assessment Red 16 Likelihood – High Impact – Critical</p> </td> </tr> </table>		<p align="center">July Assessment Amber 9 Likelihood –Medium Impact – Significant</p>	<p align="center">September Assessment Red 16 Likelihood – High Impact – Critical</p>
<p align="center">July Assessment Amber 9 Likelihood –Medium Impact – Significant</p>	<p align="center">September Assessment Red 16 Likelihood – High Impact – Critical</p>			
<p>Impact/Consequence(s):</p> <ul style="list-style-type: none"> In the absence of local agreement the Government could decide powers to be devolved to the elected Mayor and powers in the Scheme. The Authority could lose the confidence of local Business Leaders and Partners if there is a major delay to devolution as a result of the Governance review not progressing as expected and within agreed timescales Negative publicity could impact on public confidence in elected mayor/the Combined Authority 				
<p>Controls:</p> <ul style="list-style-type: none"> Devolution Deal for the North East – Each Local Authority has considered the conditions set out in the devolution agreement before consenting to the creation of a Mayoral Authority. On-going meetings and consultation with DCLG Agreed Key Milestones and stage reviews to meet the statutory timetable for the Governance Review and submission of the Order Chief Executives, in consultation with Leaders, have been given delegated powers to consent to the order creating the combined authority and all other relevant matters to enable the formal establishment of the mayoral authority to proceed up to the approval of the required governance review and scheme detailing the devolution of functions, responsibilities and powers sought by the new mayoral combined authority. The legal order, to be agreed in June/July, to deal with the creation of a mayoral authority to be followed by a second order, to be laid in October setting out the powers and responsibilities which will be devolved 				
<p>Next Steps:</p> <ul style="list-style-type: none"> The draft Scheme and Governance Review is being developed with an agreed schedule/programme of meetings involving Leaders, Chief Executive's and Economic Directors to ensure that the statutory timetable is followed to ensure there is a minimum of 6 weeks stakeholder consultation prior to the submission of the Order for approval/consent, expected by the end of 2016 or early 2017 A Communications Plan is ready to be mobilised at short notice following agreement by the Leadership Board at its September meeting 				

North East Combined Authority

Governance Committee

<p>Devolution – Risk to the current and future devolution of funding, powers and responsibilities</p> <p>Failure to deliver the Devolution agenda, and secure future negotiations with the Government for delegation of further powers and responsibilities, could occur if the Combined Authority (members, officers, and partners) do not continue to strengthen relationships with all stakeholders to develop key regional strategies and delivery plans.</p>	<p style="text-align: center;">Risk Owner North East Leadership Board</p>		
<p>Cause(s):</p> <ul style="list-style-type: none"> • Governance arrangements within the Authority do not meet the expectations of the Government • Delivery and Operational levels of the Combined Authority continue to be developed. There will be a need to ensure governance and delivery arrangements are adequately resourced to prove the Combined Authority’s ability to successfully deliver all priorities, avoiding reputational risk • Success of the Combined Authority will rely on the on-going commitment and buy in of all constituent authorities and the working of the Authority with other partners in the region, including the North East Local Enterprise Partnership (NELEP) 	<p style="text-align: center;">Risk Score Mitigating the risk will ensure closer more cooperative working increasing the reputation of the Combined Authority</p> <table border="1" style="width: 100%; text-align: center;"> <tr> <td style="background-color: #FFD700;"> <p>July Assessment Amber 8 Likelihood – Low Impact – Critical</p> </td> <td style="background-color: #FF0000;"> <p>September Assessment Red 12 Likelihood - Medium Impact – Critical</p> </td> </tr> </table>	<p>July Assessment Amber 8 Likelihood – Low Impact – Critical</p>	<p>September Assessment Red 12 Likelihood - Medium Impact – Critical</p>
<p>July Assessment Amber 8 Likelihood – Low Impact – Critical</p>	<p>September Assessment Red 12 Likelihood - Medium Impact – Critical</p>		
<p>Impact/Consequence(s):</p> <ul style="list-style-type: none"> • Government could restrict the level of powers and autonomy if our Governance arrangements are not in line with their expectations • The Authority could lose the confidence of local Business Leaders and Partners if there is a major delay to devolution as a result of challenging National Government governance expectations/arrangements • Any divergence between the Authority’s aims and priorities and those of the NELEP may impact adversely on continued Government support and funding and send a contradictory or inconsistent message to our partners 			
<p>Controls:</p> <ul style="list-style-type: none"> • There is an agreed schedule/programme of meetings involving Leaders, Chief Executive’s and Economic Directors • Devolution Deal for the North East – Each Local Authority has considered the conditions set out in the devolution agreement before consenting to the creation of a Mayoral Authority • The Strategic Economic Plan will be refreshed during 2016 to ensure its priorities remain current and in line with the Order and the Scheme. The Plan is aligned to a European Structural and Investment Fund Strategy, to direct the allocation of European Funding 2014-2020 to grow the North East Economy 			
<p>Next Steps:</p> <p>On behalf of the Leadership Board, Economic Directors Group have put in place a significant programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely, working with the business community to:</p> <ul style="list-style-type: none"> • Understand the impact on economy, property markets and the labour market • Understand the picture and local intelligence • Understand the impact on inward investment activity • Identify key asks for Brexit negotiations • European funding (levels of spend and issues) • Post EU regeneration funding asks <p>Discussions have taken place and are on-going with DCLG on the application for Intermediate Body status (to be submitted in September 2016), to enable the delegation of powers in relation to ERDF funding.</p>			

North East Combined Authority

Governance Committee

<p><u>New Risk</u></p> <p>European Funding - <i>Failure to secure funding</i></p> <p>Failure to secure funding previously obtained through European Structural Investment Funding Schemes will jeopardise delivery of the Strategic Economic Plan.</p>	<p><u>Risk Owner</u> North East Leadership Board</p> <p><u>Risk Score</u> Mitigating the risk will ensure that the governance review is completed and Government Timetable is met</p> <p>RED 16 Likelihood – High Impact – Critical</p>
<p><u>Cause(s):</u></p> <ul style="list-style-type: none">• There is uncertainty around the Governments plans to release European funding as a result of the economic uncertainties following the referendum result to leave the European Union• Inability to secure future funding opportunities when Article 50 is invoked	
<p><u>Impact/Consequence(s):</u></p> <ul style="list-style-type: none">• The uncertainty risks damaging local regeneration plans and stalling infrastructure projects, employment and skills schemes and local growth projects• Delivery of the Strategic Economic Plan could be compromised	
<p><u>Controls:</u></p> <ul style="list-style-type: none">• NELEP have set up a working group of partners to establish the impact of losing European Funding• Government have given assurances that key projects supporting economic development will be honoured if they are signed before the Autumn Statement	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none">• The Leadership Board met with the Secretary of State for Communities and Local Government on 23 August 2016 to gain further assurances regarding availability of future funding for ESIF projects agreed before the Autumn Statement• The Combined Authority and Local Authorities are working together to secure the £58.5m of Jeremie 2 grant funding (part of the European Structural Fund). This requires the creation of a Special Purpose Vehicle to deliver projects which will support small and medium sized enterprises. Progress will be reported to the Leadership Board on 20 September 2016	

North East Combined Authority

Governance Committee

<p><u>Operational</u> – <i>Lack of Operational Capacity and Clarity of Roles and Responsibilities</i></p> <p>There is a lack of clarity and shared understanding in the constituent authorities of the roles and responsibilities of staff working on Devolution and supporting the Combined Authority. This may result in duplication of activity and conflicting priorities with existing resources not being fully utilised to effectively support the Combined Authority/Leadership Board in the delivery of the devolution agenda.</p>	<p align="center"><u>Risk Owner</u> North East Leadership Board</p>	
	<p align="center"><u>Risk Score</u> Mitigating the risk will ensure that existing knowledge and resources are used, reducing potential duplication and maximising the benefits to the Region</p>	
	<p align="center">July Assessment Amber 9 Likelihood – Medium Impact –Significant</p>	<p align="center">September Assessment Amber 9 Likelihood – Medium Impact - Significant</p>
<p><u>Cause(s):</u></p> <ul style="list-style-type: none"> • It has not been possible to formalise the level of resources required and consequently the formal staffing/resourcing structures for the Combined Authority until the formal decision of the Leadership Board to submit a formal proposal to government to establish a Mayoral Combined Authority • The Leadership Board and Chief Executives have not been in a position to formally discuss/approve resources and confirm roles and responsibilities • For staff responsible for Combined Authority functions agreed staffing structures have not been formalised and/or communicated, therefore resource plans have not been developed which recognise individual officer disciplines, main responsibilities and resource requirements e.g. budgets • Lack of understanding of roles and interdependencies between officers supporting the Combined Authority, priorities and outputs have not therefore been defined 		
<p><u>Impact/Consequence(s):</u></p> <ul style="list-style-type: none"> • The lack of clarity or shared understanding of key support functions may impair the Authority’s ability to operate effectively and efficiently (lack of clear vision/priorities) • Key delivery targets in the Devolution Delivery plan could be missed • Negotiations with Government could take longer than planned • The lack of effective resource plans may result in reduced capacity to effectively support Statutory Officers discharge their duties confidently • Duplication of effort between officers within individual Local Authorities/NECA/NELEP 		
<p><u>Controls:</u></p> <ul style="list-style-type: none"> • Service Level Agreements (SLAs) are in place to satisfy some human resources requirements • To support the Leadership Board a review of resources has been carried out to identify officer support currently available across each Local Authority 		
<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> • The Leadership Board are considering the resources and officer disciplines required to deliver the devolution agreement to ensure the Authority can function effectively and continue to promote its activity • Recruitment and Selection process for the Managing Director and Director of Resources. Positions are expected to be filled early 2017 - Following recruitment to these positions effective service planning and priority setting will be carried out • The existing officer working groups and work stream project teams to be refreshed to reflect the change from working towards the Devolution Agreement and Order to the delivery of the Devolution Vision and “Business as Usual”. This will provide the opportunity to improve the effectiveness of the use of resources across member Councils enabling more effective allocation of resources to agreed priorities 		

North East Combined Authority

Governance Committee

<p>Resources – <i>Lack of qualified and experienced staff risk the delivery of proposed projects and schemes</i></p> <p>The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver all the projects and schemes relating to Devolution, within the constraints of approved funding streams, timeframes, conditions and performance criteria.</p>	<p align="center">Risk Owner North East Leadership Board</p>	
	<p align="center">Risk Score Mitigating the risk will enable the Combined Authority to improve its credibility as an organisation that has the resources and experience to deliver its vision for Devolution</p>	
	<p align="center">July Assessment Amber 9 Likelihood – Medium Impact –Significant</p>	<p align="center">September Assessment Amber 9 Likelihood – Medium Impact - Significant</p>
<p>Cause(s):</p> <ul style="list-style-type: none"> Delays in the submission date of the formal proposal to Government to establish a Mayoral Combined Authority have meant the start of the recruitment process for the Managing Director and Director of Resources positions have not been completed, impacting on the start of the development of staffing structures and resource planning The Combined Authority’s budget will not be agreed and signed off until the Order has been confirmed so there is uncertainty around affordability of core staffing required to ensure the Combined Authority operates effectively and can support the delivery of the Devolution agenda Agreement cannot be reached on the Combined Authority’s budget Staff with the necessary skills and expertise in member Councils are not released to support Devolution and enable the transfer of skills, knowledge and expertise to staff working on the delivery of the devolution work streams Lack of agreed service plan, agreed priorities, Devolution delivery timeline and defined outputs 		
<p>Impact/Consequence(s):</p> <ul style="list-style-type: none"> If the Combined Authority/NELEP are unable to demonstrate their ability to deliver agreed projects and schemes which fully satisfy the Governments funding criteria it may result in difficulties in securing future funding and delegation of further powers and responsibilities to the Region Possible delays in the delivery of agreed outputs/devolution work streams Possibility of projects across all themes competing against each other for funding NECA are unable to provide evidence of skills, knowledge, expertise and segregation of duties as required as part of the Independent Body Status application Reputational impact as the Combined Authority is the accountable body (along with the NELEP) 		
<p>Controls:</p> <ul style="list-style-type: none"> Approval of Service Plan, Devolution Project Plan and the development of effective governance arrangements and project management methodologies will identify risks and issues to enable resources to be managed effectively Delivery against agreed performance indicators/criteria will improve as the NECA organisation (Mayoral combined authority) develops its target operating model and merges with the NELEP in its reformed role 		
<p>Next Steps:</p> <ul style="list-style-type: none"> Provide DCLG with target operating structure that will be implemented as part of IB Status application Recruitment and Selection process for the Managing Director will conclude on 12 September with appointment expected to commence early 2017 Following recruitment effective service planning and priority setting to be put in place Approval and implementation of staffing structures and resource allocation (budget setting and monitoring) Development of Performance Management framework including agreed high level indicators and ‘Dash Board’ 		

North East Combined Authority

Governance Committee

<p><u>Partnerships</u> - <i>Opportunity to strengthen partnerships</i></p> <p>The need for effective governance and partnership management, supported by clear and timely communications will provide the opportunity to strengthen existing partnerships in the region and beyond. This will encourage the development of new partnerships across the public and private sector helping to drive forward change and successfully deliver the benefits and outcomes of the Devolution Deal across the region.</p>	<p align="center"><u>Opportunity Owner</u> North East Leadership Board</p>	
	<p align="center"><u>Opportunity Score</u> The opportunity will bring significant benefits if the Combined Authority increases the opportunities and environment for successful partnerships/joint working</p>	
	<p align="center">July Assessment Amber 9 Likelihood – Medium Impact – Significant</p>	<p align="center">September Assessment Amber 9 Likelihood – Medium Impact - Significant</p>
<p><u>Benefits</u></p> <ul style="list-style-type: none"> • Strengthening the synergy between the Leadership Board, North East Local Enterprise Partnership (NELEP) and Local Authorities • Influencing regional approaches to growth • Providing the legal platform and governance framework to access more devolved powers • Enabling local leaders to speak with one voice about the future of our functional economic areas • Improving how we work with Government, business, investors and partners • Providing a legally constituted and democratically accountable body to channel the delivery of priority programmes and infrastructure projects for the region 		
<p><u>Barriers</u></p> <ul style="list-style-type: none"> • The success of the Combined Authority will rely on the on-going commitment and buy in of all member authorities and how NECA works with other partners in the region, including the private sector • It is important that the Leadership Board share the same vision and commitment to the Combined Authority, ensuring individual plans are aligned • It is recognised that there are a number of partners, therefore effective and timely communications and consultation is vitally important to reduce reputational impact • The Leadership Board have the delegated powers to make strategic decisions, however they need to ensure support services are adequately resourced to inform and assist decision making 		
<p><u>Controls</u></p> <ul style="list-style-type: none"> • Development and approval of the Partnership Governance Framework including a communications plan will ensure effective dialogue/information exchange and joint working with partners to improve outcomes for the Region • Programmed and Structured partner engagement plan • Development of Strategic Partnership Register • The appointment of the Commission for Health and Social Care integration for the North East. Set up by the NHS and NECA to identify opportunities for further collaboration and integration to improve the health and wellbeing of residents and reduce health inequalities across the North East 		
<p><u>Next Steps</u></p> <ul style="list-style-type: none"> • Partners continue to engage through the formal meetings of the Combined Authority, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels • Development of a Communications Protocol between partner authorities and an additional agreement between the Combined Authority and the NELEP Communications Teams, to ensure the allocation of resources and responses to enquiries are coordinated. The consultation approach will include the development of a Toolkit to ensure all constituent authority communication teams have draft content for websites, social media and publicity 		

NECA Strategic Risk Analysis Toolkit

Appendix C

Action plans must be developed for Red and Amber risks

Determine the risk priority					
Impact					
Likelihood		Insignificant	Minor	Significant	Critical
	High	4	8	12	16
	Medium	3	6	9	12
	Low	2	4	6	8
	Negligible	1	2	3	4

Assess the likelihood of the risk occurring	
High	Risk will almost certainly occur or is occurring at present
Medium	Risk is likely to occur in most circumstances
Low	Risk may occur
Negligible	Risk is unlikely to occur

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopp	<ul style="list-style-type: none"> Over half the objectives/programmes affected More than one critical objective affected Partners do not commit to the Shared vision 	<ul style="list-style-type: none"> Significant change in partner services Relationship breakdown between major partners and stakeholders Serious impact on delivery of Strategic Investment Plans Unplanned major re-prioritisation of resources and/or services in partner organisations Failure of a delivery programme/major project 	<ul style="list-style-type: none"> Inability to secure or loss of significant funding opportunity (£5m) Significant financial loss in one or more partners (£2m) Significant adverse impact on budgets (£3m – Transport / NELEP; £0.2m Central Budget) 	<ul style="list-style-type: none"> Adverse national media attention External criticism (press) Significant change in confidence or satisfaction of stakeholders Significant loss of community confidence
Significant	<ul style="list-style-type: none"> One or more objectives/programmes affected One or more partners do not commit to shared vision Significant environmental impact 	<ul style="list-style-type: none"> Partner unable to commit to joint arrangements Recoverable impact on delivery of Strategic Economic Plan Major project failure 	<ul style="list-style-type: none"> Prosecution Change in notable funding or loss of major funding opportunity (£2m) Notable change in a Partners contribution Notable adverse impact on budget (£0.5m-£1.5m Transport or NELEP budgets) 	<ul style="list-style-type: none"> Notable external criticism Notable change in confidence or satisfaction Internal dispute between partners Adverse national/regional media attention Lack of partner consultation Significant change in community confidence
Minor	<ul style="list-style-type: none"> Less than 2 priority outcomes adversely affected Isolated serious injury/ill health Minor environmental impact 	<ul style="list-style-type: none"> Threatened loss of partners commitment 	<ul style="list-style-type: none"> Minor financial loss in more than one partner Some/loss of funding or funding opportunity threatened 	<ul style="list-style-type: none"> Failure to reach agreement with individual partner Change in confidence or satisfaction Minor change in community confidence
Insignifi	<ul style="list-style-type: none"> Minor effect on priorities/service objectives Isolated minor injury/ill health No environmental impact 		<ul style="list-style-type: none"> Isolated/minor financial impact in a partner organisation 	

North East Combined Authority

Governance Committee

DATE: 13 September 2016

SUBJECT: Internal Audit Progress Report

REPORT OF: Audit, Risk and Insurance Service Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide Members with:

- Progress against the delivery of the 2016/17 internal audit plan
- Information on the implementation of audit recommendations
- A revised 2016/17 internal audit plan.

RECOMMENDATIONS

It is recommended that the Committee note the internal audit activity to date.

North East Combined Authority

Governance Committee

1 Background Information

Progress with Delivery of the plan

- 1.1 The Audit Plan has been agreed by the Governance Committee for 2016/17 however since the last meeting it has been agreed with the Chair and Vice Chair that audits within the plan can be rescheduled. In the early part of the year audits of governance arrangements and strategic planning were due to take place however with devolution and the process to appoint new statutory officers it was felt more appropriate to move these until later in the year and replace them with audits timed for later in the audit plan. The plan is at Appendix 1 which shows the revised plan as well as the current status of audits.
- 1.2 Two planned audits are in progress, namely financial management arrangements and partnerships and an audit of the Local Growth Fund Grant (LGF), which was not planned is also ongoing.

Implementation of Outstanding Recommendations

- 1.3 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards outstanding recommendations is detailed below:

	Audit and Recommendation	Lead Officer/ Implementation due date	Progress update
1	Financial Management		
1.1	Formal Service Level Agreements were not in place for 2015/16 services provided to the Combined Authority by member authorities. (Medium)	Chief Finance Officer Original date - September 2015 SLA costs were updated for the 2016/17 Budget.	All providers have updated costs for 2015/16. The Chief Finance Officer will review 2016/17 arrangements with the Head of Paid Service once decisions on devolution have been taken.
1.2	Information is obtained from across the Councils making up the Combined Authority and there is a risk this fragmentation can reduce effectiveness going forward. (Medium)	Chief Finance Officer Original date - September 2015 Revised date for	Following the appointment to the Head of Paid Service position (recruitment and selection process will conclude on 12 September with

North East Combined Authority

Governance Committee

		<p>centralising accommodation and finance systems is.</p> <p>March 2017</p>	<p>appointment expected to commence early 2017) a more centralised accommodation and finance arrangements will be established.</p> <p>Risks have been mitigated by co-ordination of activity by the Chief Finance Officer.</p>
2	Major Projects		
2.1	To enable appropriate approval and monitoring of all major projects, the definition of a major project should be established and an overarching register of all major projects undertaken on behalf of the NECA should be held.	<p>Head of Paid Service/Chief Finance Officer</p> <p>1 April 2016</p> <p>Revised date 1 November 2016</p>	This has been agreed and discussions are in progress to develop a definition and register.
2.2	The protocols referred to in the Constitution for the discharge of the transport, and economic development and regeneration functions should be developed and approved with the appropriate bodies. A timescale for developing and agreeing the protocols should be agreed and progress monitored against it.	<p>Head of Paid Service</p> <p>1 April 2016</p> <p>Revised date 1 November 2016</p>	The Devolution Agreement has now been agreed and changes to the arrangements for delivery of NECA responsibilities will emerge through the Governance Review and Scheme. A new Constitution for the Mayoral Combined Authority is planned to be issued for consultation later in the year. Protocols relevant to the new Governance structures will be developed in conjunction with the updated Constitution by November 2016.

North East Combined Authority

Governance Committee

2.1 This work feeds into the Annual Governance Statement for 2016/17.

3 Potential Impact on Objectives

3.1 No direct impact on objectives.

4 Finance and Other Resources

4.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement.

5 Legal

5.1 No direct legal implications arising specifically from the report.

6 Other Considerations

6.1 Consultation/Community Engagement

No external consultation or community engagement required.

6.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

6.3 Equalities and Diversity

There are no equalities and diversity implications directly arising from this report.

6.4 Risk Management

A risk assessment has taken place to identify key areas for inclusion within the Internal Audit Annual Plan. Members assess the plan to determine if key risks are covered by the planning process.

6.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

6.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

7 Background Documents

7.1 Final Internal Audit Reports

North East Combined Authority

Governance Committee

8 Links to Plans in the Policy Framework

8.1 No direct link to the Policy Framework.

9 Appendices

9.1 Appendix 1 – Revised 2016/17 audit plan

10 Contact Officers

10.1 Philip Slater, Audit, Risk and Insurance Service Manager
E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

11 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

North East Combined Authority

Governance Committee

2016/17 Audit Plan			Appendix 1		
Audit	Delivered by	Audit scope and coverage	Days	Status	Date to report to Governance Committee
Strategic Planning	Newcastle	To assess the adequacy and effectiveness of business planning arrangements and ensure they remain valid in light of potential risks and opportunities as identified in the Combined Authority's risk register.	5	To Start	Original Date – September revised to December 2016
Governance	Newcastle	Review of the operation of governance arrangements in place and provide appropriate advice to officers establishing processes for reporting and monitoring.	4	To Start	Original Date – September revised to April 2017
North East Local Enterprise Partnership	Sunderland	To review the arrangements for loans and grants to other organisations, specifically in terms of loan repayment, process, governance and transparency.	TBC	To Start	December 2016
Financial Management	Newcastle	Audit coverage will include The adequacy of financial arrangements for the overall Combined Authority and processes in place within Newcastle City Council in relation to Tyne and Wear transport financial systems.	4	In Progress	Original date December 2016 revised to September 2016
Partnerships	Newcastle	To assess whether significant partnership arrangements are effective by considering whether: <ul style="list-style-type: none"> Partnerships clearly align with corporate objectives Formal governance arrangements are in place Performance management arrangements have been established and are monitored. 	8	In Progress	December 2016

North East Combined Authority

Governance Committee

Tyne Tunnel	Newcastle	Assess the adequacy and effectiveness of contract monitoring including toll income.	4	To Start	April 2017
Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	-	To Start	April 2017
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	-	To Start	April 2017
Contingency	Newcastle	Provision to cover emerging risks, fraud investigation and general advice.	5	As required	
Local Growth Fund Grant Claim	Newcastle	Time from contingency allocation		In progress	December 2016
Governance Committee Support	Newcastle	<ul style="list-style-type: none"> • Development and monitoring delivery of the Internal Audit Annual Plan. • Preparation of reports to and attendance at Governance Committee. • Follow up on the implementation of recommendations made within Internal Audit reports. • Provide training for Members 	5	As required	

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